

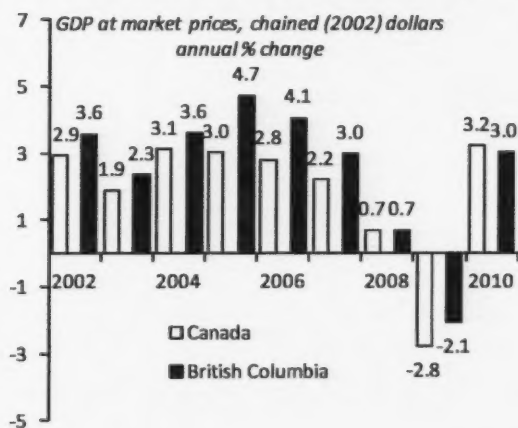
Business Indicators ♦ November 2011

Economic activity in B.C. bounces back in 2010

Gross domestic product rebounds in 2010

British Columbia's real gross domestic product (GDP) expanded 3.0% in 2010, a solid turnaround from the substantial retreat (-2.1%) registered in the previous year.¹ However, the rate of economic growth posted by B.C. was slightly behind the national average (+3.2%).

B.C.'s economy shows sign of life in 2010

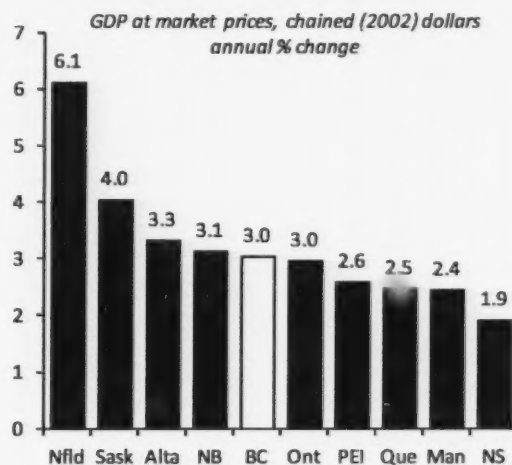


Data Source: Statistics Canada

Every province recorded economic gains in 2010. However, resource-based economies such as those of Newfoundland & Labrador (+6.1%), Saskatchewan (+4.0%) and Alberta (+3.3%) led the way in terms of growth.

Comparatively, British Columbia's rate of economic growth ranked fifth strongest among the provinces in 2010.

B.C. posts the fifth strongest economic growth among the provinces



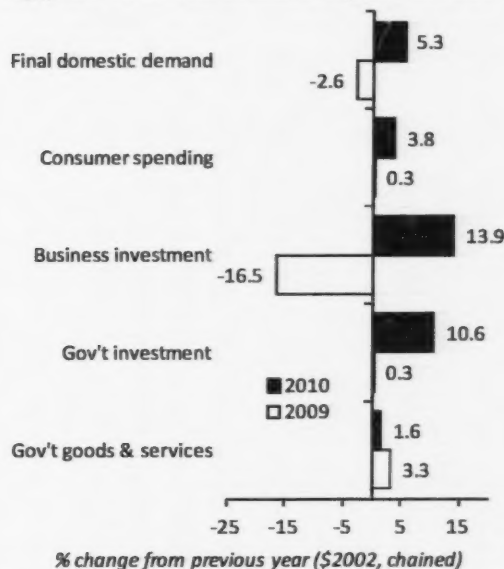
Data Source: Statistics Canada

Domestic demand drives expansion

The pace of economic growth in British Columbia was primarily driven by a 5.3% jump in final domestic demand (total personal, business and government spending), with business investment (+13.9%) and consumer spending (+3.8%) spurring much of the growth.

¹ Gross domestic product (GDP) figures quoted in this article are reported in chained (2002) dollars. Chained GDP is adjusted to remove the effects of price variations and can be viewed as estimates of the volume of output; it is therefore often referred to as "real" GDP. Unless otherwise noted, all figures are in chained 2002 dollars.

Business investment and consumer spending push domestic demand higher in 2010



Data Source: Statistics Canada

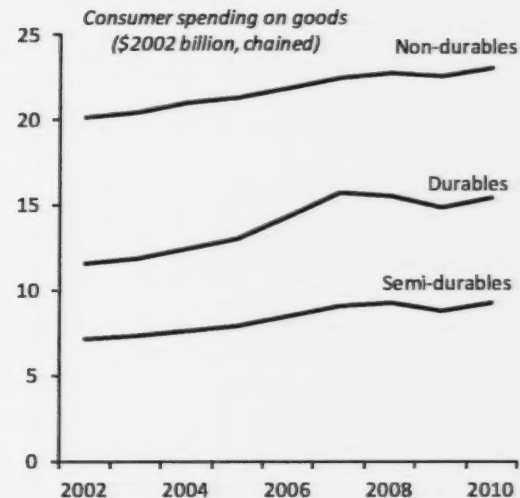
Following back-to-back years of declines in 2008 (-0.9%) and 2009 (-4.6%), spending on durable goods, which includes many "big-ticket items" such as motor vehicles and major household appliances, rose 3.9% in 2010. This is in line with a slight turnaround (+2.5%) in the number of new motor vehicles sold in B.C.

While spending on durable goods did recover in 2010, this increase was lower than rates of growth registered during the years leading up to the economic downturn. During the four-year period from 2004 to 2007, durable goods spending rose at rates between 4.1% and 10.8%, considerably stronger than the 3.9% expansion recorded in 2010.

Spending on semi-durable goods such as clothing, footwear and household textiles rose sharply (+5.1%) in 2010, while expenditures on non-durables was up moderately (+2.1%) compared to the previous year. Unlike spending on durable goods, the rates

of expansion for spending on semi-durables and non-durables were comparable to rates of growth realized in the years immediately preceding the recession.

Personal spending on goods of all types rebounds in 2010



Data Source: Statistics Canada

Despite the presence of adverse economic conditions, personal spending on services climbed 2.3% in 2009. In 2010, growth of expenditures on services continued to build momentum, rising 4.2%.

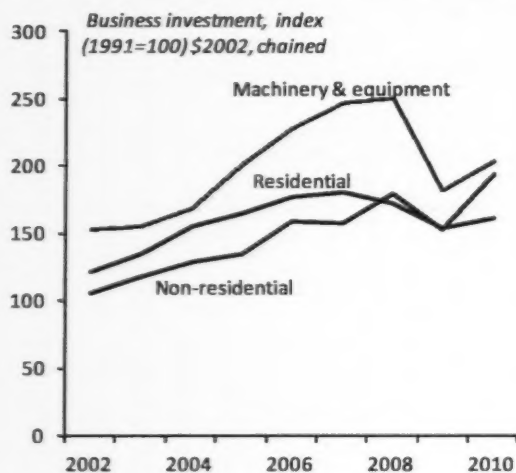
Goods and services purchased by the government sector also rose in 2010, increasing 1.6% during the year.

Investment by the business sector begins to recover

Total investment by the business sector rose 13.9% in 2010, making up much of the ground lost during the previous year. Investment retreated substantially (-16.5%) in 2009, marking the largest contraction in corporate investment recorded since the recession of 1982 (-21.4%). In the wake of the 1982 recession, business investment continued to weaken, shrinking three times over the course of the following four years.

Therefore, compared to the 1982 recession, the current recovery in business sector investment has been quicker.

Business investment in residential and non-residential structures recovers in 2010



Data Source: Statistics Canada

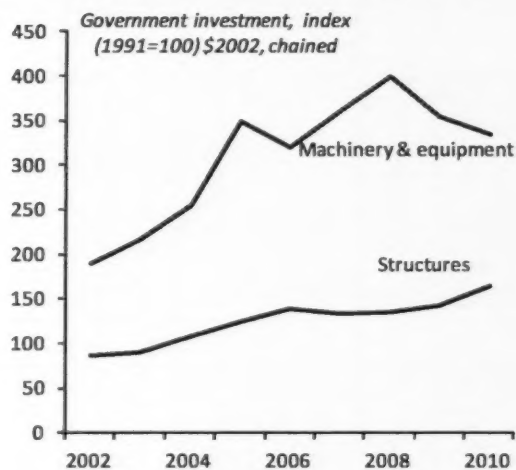
However, the pace set in 2010 may not remain as strong. Private sector respondents to the *Public and Private Sector Investment Intentions Survey* (conducted between October 2010 and January 2011) have indicated that spending on non-residential structures (measured in current dollars) will increase only slightly (+4.8%). On the other hand, general economic uncertainty may forestall current intentions or at the very least delay those projects until a time when corporations are more certain to see a return on their investment.

Government sector investment surges ahead in 2010

Capital investment by the government sector soared 10.6% in 2010, commensurate with efforts by the different levels of government to stimulate economic activity. While purchases of machinery & equipment continued to slide lower (-5.6%), investment in structures surged ahead 15.4%, the largest annual

increase posted since 2005. Spending on structures covers infrastructure projects involving construction, extensive modification and repair to bridges, highways, schools and hospitals, as well as dams, sewage treatment and power plants.

Government investment in structures rises while outlays on machinery & equipment continue to slide in 2010



Data Source: Statistics Canada

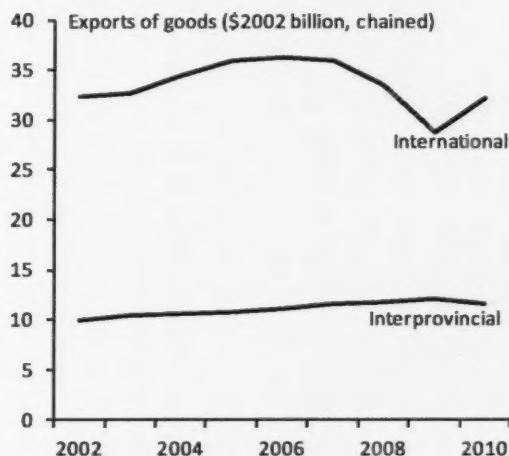
Looking ahead to 2011, it is noteworthy to point out that public sector respondents to the *Public and Private Sector Investment Intentions Survey* have suggested that expenditures on non-residential structures will ease only slightly (-1.8%). However, once again, the current economic climate may pressure the government sector to continue to increase investment. Already governments at the federal and provincial level are distancing themselves from previous pledges to tighten fiscal spending.

Exports begin to climb out of a two-year slump

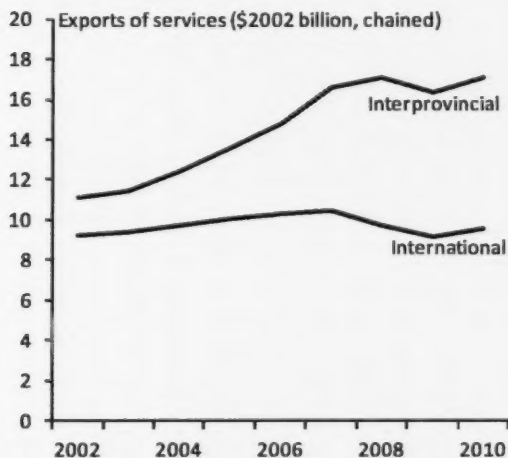
Following back-to-back annual decreases in 2008 (-3.3%) and 2009 (-7.9%), exports from B.C. regained some of that lost ground with a 6.0% increase in 2010. While inter-provincial exports were up moderately

(+1.2%), most of the increase was due to increased exports to other countries (+9.8%). As more than three-quarters of international exports are in goods, an 11.8% increase recorded in exports of B.C. commodities was the main driver in the overall increase in shipments abroad.

International exports of both goods and services improve in 2010



Data Source: Statistics Canada



Data Source: Statistics Canada

The current dollar value of exported B.C. commodities rose 15.3% in 2010, recovering some of the ground lost during the previous year (-24.3%). This was mainly spurred by a

sharp increase (+28.5%) in shipments to countries other than the United States. Substantial double-digit increases in exports of forestry (+40.6%), industrial goods (+34.7%) and energy (+24.8%) products had the largest impact on the overall increase in the value of exports from B.C. in dollar terms. Also significantly higher were shipments of consumer goods (+26.0%) and automotive products (+25.9%).

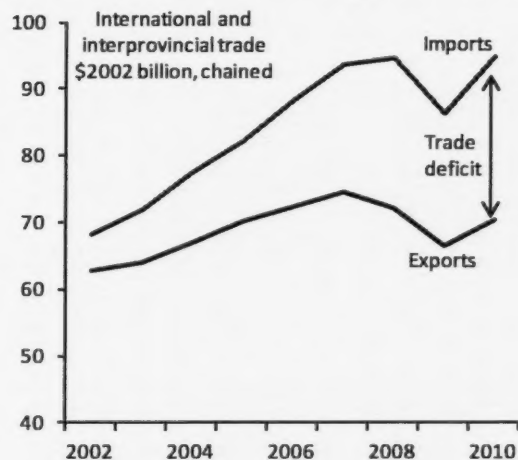
Exports to the U.S. were up only slightly (+2.8%) compared to the previous year. However, this increase did follow four consecutive annual declines. Automotive (+26.1%) and energy (+10.2%) products were the only commodity groups to show significant increases in 2010. However, this growth was tempered by only slight growth in shipments of agricultural & fishing products (+1.8%) and declines in the values of machinery & equipment (-0.9%) and consumer goods (-0.4%) exports.

British Columbia's trade deficit deepens in 2010

Commensurate with the higher levels of consumer spending and business investment previously mentioned, imports of goods and services into B.C. shot up (+9.9%), slightly surpassing pre-recessionary levels.

This sharp increase in imports outpaced the growth in exports from B.C., deepening the province's overall trade deficit. After narrowing slightly in 2009, British Columbia's trade deficit expanded by roughly one fifth (+20.2%) to \$31.8 billion in 2010.

British Columbia's trade deficit reaches \$31.8 billion, the largest on record



Data Source: Statistics Canada

Goods sector pulls ahead in 2010; service industries post modest gains

In 2010, industries in the goods-producing sector saw economic activity increase 6.8%, with utilities (-3.7%) the only major sector-level aggregation to post a decline. While the rebound in 2010 was not enough to offset previous slowdowns, it was sufficient to make a break with a recent negative trend. From 2007 to 2009, sector-wide GDP had been steadily contracting, falling 10.8% during the three-year period.

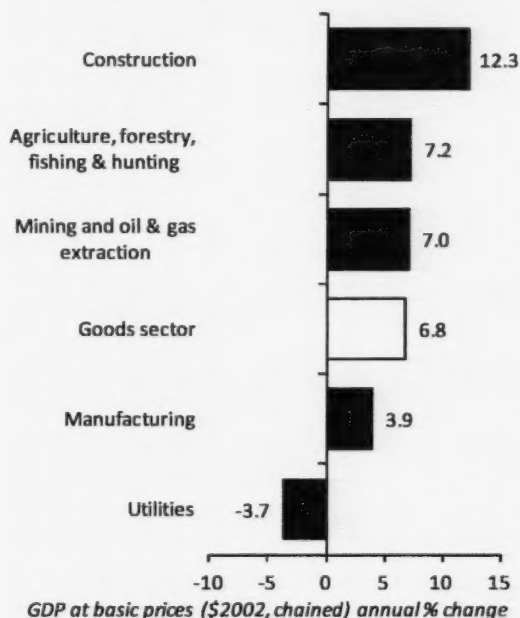
After sliding sharply (-9.3%) in 2009, the construction sector rebounded (+12.3%), in line with increases in investment in residential and non-residential buildings in the corporate and government sectors.

Manufacturing, too, posted a significant drop during the previous year (-13.0%). However, unlike construction, GDP in manufacturing recovered only a portion (+3.9%) of that decline in 2010. Making gains during the year were the wood (+11.4%), food (+4.6%) and paper (+1.1%) industries. However, tempering growth in the manufacturing sector was weaker activ-

ity among manufacturers of non-metallic mineral (-6.3%), furniture (-4.8%) and fabricated metal (-4.4%) products.

Agriculture, forestry, fishing & hunting (+7.2%) also posted considerable gains in 2010. This increase was entirely the result of a double-digit (+16.0%) increase in the forestry & logging industry, as GDP in crop & animal production was virtually unchanged, while fishing, hunting & trapping (-10.0%) and support for agriculture and forestry (-3.9%) both declined.

Growth in the goods sector is lead by an expansion in construction

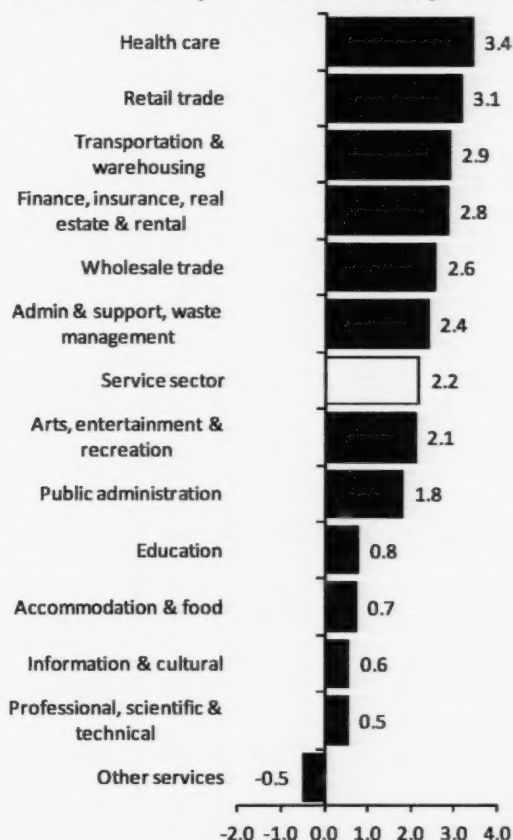


Data Source: Statistics Canada

The province's mining and oil & gas extraction sector strengthened (+7.0%), as the oil & gas extraction (+3.0%) and mining (+8.7%) industries both pushed ahead. Support activities for mining and oil & gas extraction saw GDP jump by more than one quarter (+25.7%) in 2010.

In the service sector, growth (+2.2%) was relatively less robust. The biggest gains were made in health care (3.4%) and retail (+3.1%), followed by increases in transportation & warehousing (+2.9%) and finance, insurance, real estate and rental (+2.8%).

Service sector GDP rises 2.2% on solid increases by health, retail and finance



GDP at basic prices (\$2002, chained) annual % change

Data Source: Statistics Canada

Despite the increased tourism dollars resulting from the Olympic Games in Vancouver, only limited gains were made by the accommodation & food (+0.7%) and information and cultural (+0.6%) service industries. However, arts, entertainment & recreation (+2.1%) did see a modest increase during the year.

Real GDP per capita and personal disposable income per capita rise in 2010

British Columbia's per capita level of GDP rose 1.4% to \$36,899 in 2010, marking the first time in two years where the increase in the province's economic activity outpaced that of population growth. However, per capita GDP remains well below the national average (\$38,826).

Provincial real disposable income on a per capita basis expanded 2.2% to \$26,166, slightly lower than the national average (\$26,571).²

Looking ahead to 2011

The sovereign debt crisis in Europe, many pundits predict, will make it all but impossible for the region to avoid another economic downturn. Debate now surrounds the length and depth of this recession and whether or not such a recession could precipitate the demise of the Euro, which is now more than ever considered to be a real possibility.

While the U.S. has seen some positive indicators of late, uncertainty around how best to tackle the level of government debt assures that recovery there will come in dribs and drabs rather than leaps and bounds.

Closer to home, economic forecasts have become less optimistic as is evident by the fact that the Bank of Canada has repeatedly emphasised the down-side risks to their prognostications. So, while 2010 has been a welcome turning point following a relatively deep recession, the pace of the recovery will likely be slow in the short-term.

² Personal income includes wages and salaries, unincorporated business income, miscellaneous investment income and transfers such as Employment Insurance or Canada Pension Plan benefits.

Disposable income is personal net of income taxes and other payment to government such as contributions to social insurance plans, medical insurance premiums and motor vehicle licences.